

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

**[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2000

OR

**[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from _____ to _____

Commission file number 0-21656

UNITED COMMUNITY BANKS, INC.

(Exact name of registrant as specified in its charter)

<u>Georgia</u>	<u>58-180-7304</u>
(State of Incorporation)	(I.R.S. Employer Identification No.)

<u>P.O. Box 398, 63 Highway 515</u>	<u>30512</u>
<u>Blairsville, Georgia</u>	
Address of Principal Executive Offices	(Zip Code)

(706) 745-2151
(Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO []

Common stock, par value \$1 per share: 10,231,440 shares
outstanding as of August 11, 2000

INDEX

PART I Financial Information

Item 1. Financial Statements

Consolidated Balance Sheets (unaudited) at June 30, 2000 and December 31, 1999

Consolidated Statements of Income (unaudited) for the Three Months and Six Months Ended June 30, 2000 and 1999

Consolidated Statements of Comprehensive Income (unaudited) for the Three Months and Six Months Ended June 30, 2000 and 1999

Consolidated Statements of Cash Flows (unaudited) for the Three Months and Six Months Ended June 30, 2000 and 1999

Notes to Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures About Market Risk

PART II Other Information

Item 1. Legal Proceedings

Item 2. Changes in Securities

Item 3. Defaults Upon Senior Securities

Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

Part I - Financial Information
Item I - Financial Statements

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets (Unaudited)

(in thousands)	June 30, 2000	December 31, 1999
ASSETS		
Cash and due from banks	\$ 70,514	89,231
Federal funds sold	34,730	23,380
Cash and cash equivalents	105,244	112,611
Securities available for sale	539,580	534,503
Mortgage loans held for sale	3,939	6,326
Loans, net of unearned income	1,500,423	1,400,360
Less: Allowance for loan losses	(20,084)	(17,722)
Loans, net	1,480,339	1,382,638
Premises and equipment, net	46,713	47,365
Accrued interest receivable	20,231	17,861
Other assets	31,621	30,136
Total assets	\$ 2,227,667	2,131,440
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand	\$ 204,173	192,006
Interest bearing demand	348,334	328,815
Savings	74,460	73,953
Time	1,080,894	1,054,618
Total deposits	1,707,861	1,649,392
Accrued expenses and other liabilities	23,202	24,378
Federal funds purchased and repurchase agreements	13,680	31,812
Federal Home Loan Bank advances	325,723	287,572
Long-term debt and other borrowings	15,711	17,516
Convertible subordinated debentures	3,500	3,500
Trust Preferred Securities	21,000	21,000
Total liabilities	2,110,677	2,035,170
Stockholders' equity:		
Preferred Stock	-	-
Common stock, \$1 par value; 10,000,000 shares authorized; 8,397,134 and 8,034,268 shares issued and outstanding	8,397	8,034
Capital surplus	43,880	30,310
Retained earnings	73,421	66,606
Accumulated other comprehensive income (loss)	(8,708)	(8,680)
Total stockholders' equity	116,990	96,270
Total liabilities and stockholders' equity	\$ 2,227,667	2,131,440

See notes to unaudited consolidated financial statements.

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES
Consolidated Statements of Income (Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
<i>(in thousands , except per share data)</i>	2000	1999	2000	1999
Interest income:				
Interest and fees on loans	\$ 37,572	28,704	72,056	55,245
Interest on federal funds sold	185	358	387	528
Interest on investment securities:				
Taxable	7,956	6,177	15,805	11,378
Tax exempt	870	972	1,766	1,889
Total interest income	46,583	36,211	90,014	69,040
Interest expense:				
Interest on deposits:				
Demand	3,455	3,337	6,805	6,004
Savings	534	316	1,079	942
Time	15,768	10,674	31,058	20,986
Notes payable, subordinated debentures, federal funds purchased and FHLB advances	5,970	4,482	10,920	7,842
Trust Preferred Securities	429	421	859	851
Total interest expense	26,156	19,230	50,721	36,625
Net interest income	20,427	16,981	39,293	32,415
Provision for loan losses	1,759	998	3,305	1,978
Net interest income after provision for loan losses	18,668	15,983	35,988	30,437
Noninterest income:				
Service charges and fees	1,646	1,276	3,119	2,440
Securities gains (losses), net	(41)	5	(36)	10
Mortgage loan and related fees	329	422	549	870
Other non-interest income	1,169	902	2,161	1,764
Total noninterest income	3,103	2,605	5,793	5,084
Noninterest expense:				
Salaries and employee benefits	8,728	7,450	16,772	14,195
Occupancy	2,683	2,187	5,249	4,273
Other noninterest expense	4,178	3,632	7,965	6,801
Total noninterest expense	15,589	13,269	29,986	25,269
Income before income taxes	6,182	5,319	11,795	10,252
Income taxes	1,987	1,828	3,776	3,468
Net Income	\$ 4,195	3,491	8,019	6,784
Basic earnings per share	\$ 0.52	0.44	1.00	0.85
Diluted earnings per share	\$ 0.51	0.43	0.98	0.83
Average shares outstanding	8,040	8,012	8,037	8,008
Diluted average shares outstanding	8,305	8,312	8,303	8,301

See notes to unaudited consolidated financial statements.

UNITED COMMUNITY BANKS, INC. & SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Unaudited)
(in thousands)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2000	1999	2000	1999
Net income	\$ 4,195	3,491	8,019	6,784
Other comprehensive income (loss), before tax:				
Unrealized holding gains (losses) on investment securities available for sale	1,536	(8,015)	(7)	(7,967)
Less reclassification adjustment for gains (losses) on investment securities available for sale	(41)	5	(36)	10
Total other comprehensive income (loss), before tax	1,495	(8,010)	(43)	(7,957)
Income tax expense (benefit) related to other comprehensive income				
Unrealized holding gains (losses) on investment securities	522	(2,719)	(2)	(2,697)
Less reclassification adjustment for gains on investment securities available for sale	(14)	2	(13)	4
Total income tax expense (benefit) related to other comprehensive income (loss)	508	(2,717)	(15)	(2,693)
Total other comprehensive income (loss), net of tax	987	(5,293)	(28)	(5,264)
Total comprehensive income	\$ 5,182	(1,802)	7,991	1,520

See notes to unaudited consolidated financial statements.

UNITED COMMUNITY BANKS, INC. & SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
In thousands

	For the Six Months Ended June 30,	
	2000	1999
Cash flows from operating activities:		
Net income	\$ 8,019	6,784
Adjustments to reconcile net income to net cash provided (used) by operating activities:	-	-
Depreciation, amortization and accretion	2,435	1,631
Provision for loan losses	3,305	1,978
Loss (gain) on sale of investment securities	36	(6)
Change in assets and liabilities:		
Interest receivable	(2,370)	(1,062)
Other assets	1,800	(2,458)
Accrued expenses and other liabilities	(1,176)	2,362
Change in mortgage loans held for sale	2,387	3,068
Net cash provided by operating activities	14,436	12,297
Cash flows from investing activities, net of purchase acquisitions:		
Proceeds from sales of securities available for sale	1,318	448
Proceeds from maturities and calls of securities available for sale	25,006	52,927
Purchases of securities available for sale	(31,793)	(147,573)
Purchase of life insurance contracts	(3,350)	(8,100)
Net increase in loans	(101,006)	(161,323)
Net cash inflow (outflow) for branch and bank acquisitions		(2,248)
Proceeds from sale of other real estate	65	439
Purchase of bank premises and equipment	(1,486)	(334)
Net cash used in investing activities	(111,246)	(265,764)
Cash flows from financing activities, net of purchase acquisitions:		
Net change in demand and savings deposits	32,193	88,313
Net change in time deposits	26,276	74,242
Net change in federal funds purchased and repurchase agreements	(18,132)	64,280
Net change in FHLB advances	38,151	63,572
Net change in long-term debt and other borrowings	(1,805)	12,949
Issuance of common stock	13,764	-
Dividends paid	(1,004)	(602)
Net cash provided by financing activities	89,443	302,754
Net change in cash and cash equivalents	(7,367)	43,826
Cash and cash equivalents at beginning of period	112,611	58,293
Cash and cash equivalents at end of period	\$ 105,244	102,119
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 49,273	
Income Taxes	\$ 4,829	

United Community Banks, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 - Significant Accounting Policies

The accounting and financial reporting policies of United Community Banks, Inc. ("United") and its subsidiaries conform to generally accepted accounting principles and general banking industry practices. The consolidated financial statements have not been audited and all material intercompany balances and transactions have been eliminated. A more detailed description of United's accounting policies is included in the 1999 annual report filed on Form 10-K.

In management's opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments are considered normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim periods.

Note 2 – Recent Developments

On May 8, 2000, United initiated a public offering of between 350,000 and 450,000 shares of common stock at a price of \$38.00 per share. As of June 30, 2000 a total of \$13.7 million representing 361,266 shares of common stock was issued and reflected in the unaudited consolidated balance sheet. On August 4, 2000, the stock offering was closed and an additional \$2.0 million of common stock issued. United used the net proceeds of the offering to provide capital for its subsidiary banks and for general corporate purposes, including the reduction of parent company debt.

In July, 2000, United formed a wholly owned Delaware statutory business trust, United Community Capital Trust II ("United Trust II"), which issued \$10 million of guaranteed preferred beneficial interests in United's junior subordinated deferrable interest debentures. These debentures qualify as Tier 1 capital under Federal Reserve Board guidelines. All of the common securities of United Trust are owned by United. The proceeds from the issuance of the Common Securities and the Trust Preferred Securities were used by United Trust to purchase \$10.3 million of junior subordinated debentures of United which carry a fixed interest rate of 11.295%. The proceeds received by United from the sale of the junior subordinated debentures were used to prepay line of credit borrowings of approximately \$10.6 million. The debentures represent the sole asset of United Trust II. The debentures and related income statement effects are eliminated in United's financial statements.

The Trust Preferred Securities accrue and pay distributions semiannually at a fixed rate of 11.295% per annum of the stated liquidation value of \$1,000 per capital security. United has entered into contractual arrangements which, taken collectively, fully and unconditionally guarantee payment of: (i) accrued and unpaid distributions required to be paid on the Trust Preferred Securities; (ii) the redemption price with respect to any Trust Preferred Securities called for redemption by United Trust II, and (iii) payments due upon a voluntary or involuntary dissolution, winding up or liquidation of United Trust II.

The Capital Trust Preferred Securities are mandatorily redeemable upon maturity of the debentures on July 19, 2030, or upon earlier redemption as provided in the indenture. United has the right to redeem the debentures purchased by United Trust II in whole or in part, on or after July 19, 2010. As specified in the indenture if the debenture are redeemed prior to maturity, the redemption price will be the principal amount, any other accrued or unpaid interest, plus a premium ranging from 2.824% in 2010 to 0.565% in 2014.

On July 26, 2000, United completed its merger with North Point Bancshares, Inc. ("North Point"), a single-bank holding company based in Dawsonville, Georgia, in exchange for 958,211 shares of United common stock. This merger will be accounted for as a pooling of interests. At June 30, 2000, North Point had \$119 million of total assets, \$109 million of total liabilities and \$10 million of total stockholders' equity.

On July 26, 2000, United completed its merger with Independent Bancshares, Inc. ("Independent"), a single-bank holding company based in Powder Springs, Georgia, in exchange for 870,595 shares of United common stock. This merger will be accounted for as a pooling of interests. At June 30, 2000, Independent had \$153 million of total assets, \$139 million of total liabilities and \$14 million of total stockholders' equity.

Note 3 - Earnings Per Share

(In thousands, except per share data)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2000	1999	2000	1999
Basic earnings per share:				
Weighted average shares outstanding	8,040	8,012	8,037	8,008
Net income	4,195	3,491	8,019	6,784
Basic earnings per share	0.52	0.44	1.00	0.85
Diluted earnings per share:				
Weighted average shares outstanding	8,040	8,012	8,037	8,008
Net effect of the assumed exercise of stock options based on the treasury stock method using average market price for the period	125	160	126	153
Effect of conversion of subordinated debt	140	140	140	140
Total weighted average shares and common stock equivalents outstanding	8,305	8,312	8,303	8,301
Net income, as reported	4,195	3,491	8,019	6,784
Income effect of conversion of subordinated debt, net of tax	54	45	105	90
Net income, adjusted for effect of conversion of subordinated debt, net of tax	4,249	3,536	8,124	6,874
Diluted earnings per share	0.51	0.43	0.98	0.83

Part I Item II

Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This discussion contains forward-looking statements under the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. Although United believes that the assumptions underlying the forward-looking statements contained in the discussion are reasonable, any of the assumptions could be inaccurate, and therefore, no assurance can be made that any of the forward-looking statements included in this discussion will be accurate. Factors that could cause actual results to differ from results discussed in forward-looking statements include, but are not limited to: economic conditions (both generally and in the markets where United operates); competition from other providers of financial services offered by United; government regulation and legislation; changes in interest rates; material unforeseen changes in the financial stability and liquidity of United's credit customers; and other risks detailed in United's filings with the Securities and Exchange Commission, all of which are difficult to predict and which may be beyond the control of United. United undertakes no obligation to revise forward-looking statements to reflect events or changes after the date of this discussion or to reflect the occurrence of unanticipated events.

Overview

United Community Banks, Inc. ("United") is a bank holding company registered under the Bank Holding Company Act of 1956. As of June 30, 2000, United had eight commercial bank subsidiaries that operate primarily in north Georgia and western North Carolina (the "Banks") that have a total of 35 banking offices. Total assets at June 30, 2000 were \$2.2 billion, compared with \$2.1 billion at December 31, 1999, an increase of 9.5% on an annualized basis.

Subsequent to June 30, 2000, United completed its mergers with North Point Bancshares, Inc. ("North Point") and Independent Bancshares, Inc. ("Independent") as described in the Recent Developments section below. With the completion of these mergers, United will operate 10 commercial bank subsidiaries with a total of 42 banking offices.

Recent Developments

On May 8, 2000, United initiated a public offering of between 350,000 and 450,000 shares of common stock at a price of \$38.00 per share. As of June 30, 2000 a total of \$13.7 million representing 361,266 shares of common stock was issued and reflected in the unaudited consolidated balance sheet. On August 4, 2000, the stock offering was closed and an additional \$2.0 million of common stock issued. United used the net proceeds of the offering to provide capital for its subsidiary banks and for general corporate purposes, including the reduction of parent company debt.

On May 15, 2000, United opened a full-service banking office in Summerville, Georgia. This banking office is a branch of United's 1st Floyd Bank subsidiary, and is operating under the trade name of "Peoples First Community Bank."

Additionally, July 26, 2000, United completed its merger with North Point Bancshares, Inc. ("North Point"), a single-bank holding company based in Dawsonville, Georgia, in exchange for 958,211 shares of United common stock. This merger will be accounted for as a pooling of interests. At June 30, 2000, North Point had \$119 million of total assets, \$109 million of total liabilities and \$10 million of total stockholders' equity.

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Trust Preferred Securities

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The Trust Preferred Securities accrue and pay distributions semiannually at a fixed rate of 11.295% per annum of the stated liquidation value of \$1,000 per capital security. United has entered into contractual arrangements which, taken collectively, fully and unconditionally guarantee payment of: (i) accrued and unpaid distributions required to be paid on the Trust Preferred Securities; (ii) the redemption price with respect to any Trust Preferred Securities called for redemption by United Trust II, and (iii) payments due upon a voluntary or involuntary dissolution, winding up or liquidation of United Trust II.

The Capital Trust Preferred Securities are mandatorily redeemable upon maturity of the debentures on July 19, 2030, or upon earlier redemption as provided in the indenture. United has the right to redeem the debentures purchased by United Trust II in whole or in part, on or after July 19, 2010. As specified in the indenture if the debenture are redeemed prior to maturity, the redemption price will be the principal amount, any other accrued or unpaid interest, plus a premium ranging from 2.824% in 2010 to 0.565% in 2014.

Income Summary

For the six months ended June 30, 2000, United reported net income of \$8.0 million, or \$.98 per diluted share, compared to \$6.8 million, or \$.83 per diluted share, for the same period in 1999. The first six months' results for 2000 provided an annualized return on average assets and average stockholders' equity of .74% and 16.42%, respectively, compared to .78% and 14.39%, respectively, for the same period in 1999. Net income for the six months ended June 30, 2000 increased 18.2% compared to the same period in 1999.

The following table summarizes the components of income and expense for the first six months of 2000 and 1999 and the changes in those components for the periods presented.

Net Interest Income

Net interest income is the largest source of United's operating income. Net interest income was \$39.3 million for the six months ended June 30, 2000, an increase of 21% over the comparable period in 1999. The increase in net interest income for the first six months of 2000 is primarily attributable to increases in outstanding average interest bearing assets (both loans and securities) over the comparable prior year period.

The increase in average outstanding securities is primarily the result of United's leverage program that was initiated during the fourth quarter of 1998. The leverage program was designed to make optimal utilization of United's capital by using borrowed funds to purchase additional securities. The leverage borrowings are principally advances from the Federal Home Loan Bank "FHLB" that are secured by mortgage loans and other investment securities. The securities purchased under the leverage program are primarily mortgage-backed pass-through and other mortgage-backed securities, including collateralized mortgage obligations. At June 30, 2000, United had approximately \$157 million of earning assets and corresponding borrowings in the leverage program.

For the six months ended June 30, 2000, the net interest margin (net interest income as a percentage of average interest earning assets) on a tax-equivalent basis was 3.97%, 20 basis points less than the comparable prior year period. The compression of the margin is primarily due to continued general competitive pressures on loan and deposit pricing and the effect of the leverage program described above. Although the average prime rate

for the first six months of 2000 was 122 basis points higher than the same period in 1999, the average loan yield increased by 10 basis points.

In January 2000, United implemented a strategic initiative designed to improve key financial performance as measured by earnings per share growth, return on average assets and return on average stockholders' equity. A key component of this plan was to address the compression of the net interest margin, which declined by 62 basis points during 1999 as compared with the prior year. United tax equivalent net interest margin for the three months ended June 30, 2000 was 4.08%, an increase of 23 basis points over the first quarter and 36 basis points over fourth quarter 1999.

The following table shows the relative impact of changes in average balances of interest earning assets and interest bearing liabilities, and interest rates earned (on a fully-tax equivalent basis) and paid by United on those assets and liabilities for the six month periods ended June 30, 2000 and 1999.

Table 1 - Condensed Consolidated Statements of Income

Unaudited

(In thousands)

	For the Six Months Ended June 30,		Change	
	2000	1999	Amount	Percent
Interest income	\$ 90,014	69,040	20,974	30.4%
Interest expense	50,721	36,625	14,096	38.5%
Net interest income	39,293	32,415	6,878	21.2%
Provision for loan losses	3,305	1,978	1,327	67.1%
Net interest income after provision for loan losses	35,988	30,437	5,551	18.2%
Non-interest income	5,793	5,084	709	13.9%
Non-interest expense	29,986	25,269	4,717	18.7%
Income before taxes	11,795	10,252	1,543	15.1%
Income tax expense	3,776	3,468	308	8.9%
Net income	\$ 8,019	6,784	1,235	18.2%

The following table shows the relative impact on net interest income of changes in the average outstanding balances (volume) of earning assets and interest bearing liabilities and the rates earned and paid by United on such assets and liabilities. Variances resulting from a combination of changes in rate *and* volume are allocated in proportion to the absolute dollar amounts of the change in each category.

Table 2 - Average Consolidated Balance Sheets and Net Interest Analysis
For the Six Months Ended June 30
Fully tax-equivalent basis
(in thousands)

	2000			1999		
	Average Balance	Interest (1)	Avg. Rate	Average Balance	Interest (1)	Avg. Rate
Assets:						
Interest-earning assets:						
Loans, net of unearned income (2)	\$ 1,477,049	72,189	9.83 %	1,144,873	55,395	9.73 %
Taxable investments	476,515	15,805	6.67 %	373,566	11,378	6.13 %
Tax-exempt investments	76,373	2,649	6.98 %	79,271	2,834	7.19 %
Federal funds sold and other interest income	12,431	387	6.26 %	20,040	528	5.30 %
Total interest-earning assets / interest income	2,042,368	91,030	8.96 %	1,617,750	70,135	8.72 %
Non-interest-earning assets:						
Allowance for loan losses	(18,663)			(14,000)		
Cash and due from banks	54,640			57,409		
Premises and equipment	47,652			43,716		
Goodwill and deposit intangibles	9,361			8,809		
Other assets	39,638			30,494		
Total assets	\$ 2,174,996			1,744,178		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Transaction accounts	\$ 347,046	6,805	3.94 %	318,995	6,004	3.79 %
Savings deposits	75,900	1,079	2.86 %	66,817	942	2.84 %
Certificates of deposit	1,048,565	31,058	5.96 %	762,935	20,986	5.53 %
Total interest-bearing deposits	1,471,511	38,942	5.32 %	1,148,747	27,932	4.89 %
Federal Home Loan Bank advances	306,204	8,906	5.85 %	228,257	5,801	5.11 %
Federal funds purchased and repurchase agreements	35,536	1,104	6.25 %	68,974	1,692	4.93 %
Long-term debt and other borrowings (3)	41,656	1,769	8.54 %	31,424	1,200	7.68 %
Total borrowed funds	383,396	11,779	6.18 %	328,655	8,693	5.32 %
Total interest-bearing liabilities / interest expense	1,854,907	50,721	5.50 %	1,477,402	36,625	4.99 %
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	195,360			164,276		
Other liabilities	26,544			7,410		
Total liabilities	2,076,811			1,649,088		
Stockholders' equity	98,185			95,090		
Total liabilities and stockholders' equity	\$ 2,174,996			1,744,178		
Net interest-rate spread			3.46 %			3.73 %
Impact of non-interest bearing sources and other changes in balance sheet composition			0.51 %			0.44 %
Net interest income / margin on interest-earning assets (4)		40,309	3.97 %		33,510	4.17 %

(1) Interest income on tax-exempt securities and loans has been increased by 50% to reflect comparable interest on taxable securities.

(2) For computational purposes, includes non-accrual loans and mortgage loans held for sale.

(3) Includes Trust Preferred Securities.

(4) Tax equivalent net interest income as a percentage of average earning assets

	<u>Volume</u>	<u>Rate</u>	<u>Total</u>
Interest-earning assets:			
Loans	\$ 16,229	565	16,794
Taxable investments	3,347	1,080	4,427
Tax-exempt investments	(102)	(83)	(185)
Federal funds sold and other interest income	(225)	84	(141)
Total interest-earning assets	<u>19,249</u>	<u>1,646</u>	<u>20,895</u>
Interest-bearing liabilities:			
Transaction accounts	543	258	801
Savings deposits	129	8	137
Certificates of deposit	8,358	1,714	10,072
Total interest-bearing deposits	9,030	1,980	11,010
FHLB advances	2,182	923	3,105
Federal funds purchased and repurchase agreements	(961)	373	(588)
Long-term debt and other borrowings	423	146	569
Total borrowed funds	1,644	1,442	3,086
Total interest-bearing liabilities	<u>10,674</u>	<u>3,422</u>	<u>14,096</u>
Increase (decrease) in net interest income	<u>\$ 8,575</u>	<u>(1,776)</u>	<u>6,799</u>

Provision for Loan Loss

The provision for loan losses was \$3.3 million, or .46% of average loans on an annualized basis, for the six months ended June 30, 2000, compared with \$2.0 million, or .34% of average loans, for the same period in 1999. Net loan charge-offs for the first six months of 2000 were \$943 thousand, or .13% of average loans on an annualized basis, compared to \$435 thousand, or .08% of average loans on an annualized basis, for the same period in 1999. The provision for loan losses and allowance for loan losses reflect management's consideration of the various risks in the loan portfolio. Additional discussion of loan quality and the allowance for loan losses is provided in the *Asset Quality* discussion section of this report.

Non-interest Income

Non-interest income for the six months ended June 30, 2000, was \$5.8 million, an increase of \$709 thousand, or 14%, over the comparable 1999 period. Service charges on deposit accounts, which represent the largest component of non-interest income, totaled \$3.1 million for the first six months of 2000, an increase of \$679 thousand, or 28%, compared to the same period in 1999. This increase is primarily attributed to an increase in the number of transaction deposit accounts and the related transaction volume.

Mortgage banking revenue for the first six months of 2000 decreased by \$321 thousand, or 37%, compared with the same period in 1999. This decrease is primarily attributable to increased mortgage loan interest rates and the corresponding decline in demand for mortgage refinance loans.

Other non-interest income totaled \$2.2 million for the six months ended June 30, 2000, an increase of \$397 thousand, or 23%, compared to the same period in 1999. The following table summarizes the components of other non-interest income for the first six months of 2000 and 1999 and the changes in those components for the periods presented:

Table 4 -Other Non-Interest Income
(In thousands)

	For the Six Months Ended			
	June 30, 2000	1999	Change Amount	Percent
Trust and brokerage fees	493	327	166	51%
ATM fees	306	221	85	38%
Bank-owned life insurance	285	191	94	49%
Insurance commissions	58	45	13	29%
Credit insurance	423	471	(48)	-10%
Safe deposit box fees	140	106	34	32%
Gain on sale of loans	9	45	(36)	-80%
Other	447	358	89	25%
Total other non-interest income	2,161	1,764	397	23%

The growth in trust and brokerage revenue is primarily attributable to an increase in the number of retail brokerage sale representatives and an increase in the amount of trust assets under management. The improvement in ATM fees is attributable to an increase in the number of ATM machines in service and an increase in the surcharge fee charged to non-customers implemented in February 1999. The increase in bank-owned life insurance revenue is a result of the growth of the underlying insurance policies' cash value since the first quarter of 1999 and corresponding increase in policy appreciation earnings.

The decrease in credit life insurance is primarily attributable to slower loan growth during the first quarter of 2000 at United's consumer finance company subsidiaries. During the first six months of 2000 such outstanding loans declined by \$1.8 million, compared with an increase of \$4.3 million during the same period in 1999.

Gains on the sale of loans recorded during the first six months of 2000 were 80% lower than the same period in 1999. The second quarter 1999 results reflect a one-time gain of approximately \$45 thousand on the sale of SBA loans.

Non-interest Expense

For the six months ended June 30, 2000, non-interest expense totaled \$30.0 million, an increase of \$4.7 million, or 18.7%, from the same period in 1999.

Salary and employee benefit expense, which represents the single largest component of non-interest expense, increased by \$2.6 million, or 18%, compared with the same period in 1999. This increase is primarily attributable staff additions made to accommodate the growth of United's customer base, including staff obtained with the acquisition of Adairsville Bancshares, Inc. ("Adairsville") effective April 1, 1999; general merit increases awarded annually in April each year; and, an increase in the cost of group health insurance coverage.

Occupancy and equipment expense for the first six months of 2000 totaled \$5.2 million, an increase of \$976 thousand, or 23%, over the same period in 1999. This increase is primarily attributable to the opening of new bank offices in three markets and the acquisition of Adairsville.

Other non-interest expense for the six months ended June 30, 2000 was \$8.0 million, an increase of 17% over the same period in 1999. This increase is primarily attributable to increases in stationary and supply expense and communications expense due to the increase in the number of bank offices and the growth of existing offices. Amortization expense for intangible assets, which is included in other non-interest expense, increased by

\$104 thousand during the first six months of 2000 compared with the same period in 1999 as a result of purchase acquisition of Adairsville.

The efficiency ratio, which is a measure of operating expenses excluding one-time expenses as a percentage of operating revenues excluding one-time gains, was 66.5% for the six months ended June 30, 2000, a 94 basis point improvement compared with the same period in 1999.

Income Taxes

Income tax expense increased by \$308 thousand, or 9%, during the first six months of 2000 as compared to the same period in 1999. The effective tax rate (income tax expense as a percentage of pre-tax net income) for the six months ended June 30, 2000, was 32.0%, compared to 33.8% for comparable 1999 period.

Investment Securities

Average securities for the first six months of 2000 were \$553 million, an increase of \$100 million, or 22%, over the comparable 1999 period. As of June 30, 2000, United had \$157 million of securities and borrowings related to the leverage program, compared with \$164 million at year-end 1999 and \$152 million at June 30, 1999. Management does not expect to increase the level of securities and related borrowings in the leverage program during the remainder of 2000.

Loans

United experienced annualized loan growth of 14% for the six-month period ended June 30, 2000. Total loans, net of unearned income, totaled \$1.5 billion at June 30, 2000, compared to \$1.4 billion at December 31, 1999. The loan growth experienced during the first six months of 2000 is attributed to continued robust economic conditions in United's market areas and corresponding strong demand for loans. Average loans for the six months ended June 30, 2000, were \$1.4 billion compared to \$1.1 billion for the comparable 1999 period, representing an increase of \$343 million, or 31%. The average tax-equivalent yield on loans (including mortgage loans held for sale) for the six months ended June 30, 2000 was 9.83%, compared to 9.73% for the same period in 1999.

Asset Quality

Non-performing assets, which include non-accrual loans, loans past-due 90 days or more and still accruing interest and other real estate owned totaled \$5.0 million at June 30, 2000, compared to \$2.4 million at December 31, 1999. Total non-performing loans at June 30, 2000, increased by \$2.5 million over the year-end 1999 level. Non-performing loans at June 30, 2000, consisted primarily of loans secured by real estate that are generally well secured and in the process of collection. Other real estate owned at June 30, 2000 totaled \$629 thousand, compared to \$541 thousand at December 31, 1999, and was comprised of seven properties.

Management classifies loans as non-accrual when principal or interest is 90 days or more past due and the loan is not sufficiently collateralized and in the process of collection. Once a loan is classified as non-accrual, it cannot be reclassified as an accruing loan until all principal and interest payments are brought current and the prospects for future payments in accordance with the loan agreement appear relatively certain. Foreclosed properties held as other real estate owned are recorded at the lower of United's recorded investment in the loan or market value of the property less expected selling costs.

The following table presents information about United's non-performing assets, including asset quality ratios.

Table 5- Non-Performing Assets
(in thousands)

	June 30, 2000	December 31, 1999	June 30, 1999
Non-accrual loans	\$ 3,749	1,370	1,906
Loans past due 90 days or more and still accruing	587	450	471
Total non-performing loans	4,336	1,820	2,377
Other real estate owned	629	541	201
Total non-performing assets	\$ 4,965	2,361	2,578
Total non-performing loans as a percentage of total loans	0.29%	0.13%	0.19%
Total non-performing assets as a percentage of total assets	0.22%	0.11%	0.14%

The increase in non-accrual loans is primarily attributable to one in-market healthcare-related credit that was placed on non-accrual status. The loan is secured by real estate, and management does not expect any significant loss in connection with the workout.

At June 30, 2000, United had approximately \$7.7 million of outstanding loans that were not included in the past-due or non-accrual categories, but for which management had knowledge that the borrowers were having financial difficulties. Although these difficulties are serious enough for management to be uncertain of the borrowers' ability to comply with the original repayment terms of the loans, no losses are anticipated at this time in connection with these loans based on current market conditions, cash flow generation and collateral values. These loans are subject to routine management review and are considered in determining the adequacy of the allowance for loan losses.

The allowance for loan losses ("ALL") at June 30, 2000, totaled \$20.1 million, an increase of \$2.4 million, or 13%, from December 31, 1999. The ratio of ALL to total loans at June 30, 2000, was 1.34%, compared with 1.30% at June 30, 1999 and 1.27% at December 31, 1999. At June 30, 2000 and December 31, 1999, the ratio of ALL to total non-performing loans was 463% and 974%, respectively.

The following table provides an analysis of the changes in the ALL for the six months ended June 30, 2000 and 1999.

Table 6 - Summary of Loan Loss Experience
(in thousands)

		Six Months Ended	
		June 30 2000	1999
Balance beginning of period	\$	17,722	12,680
Provision for loan losses		3,305	1,978
Balance acquired from subsidiary at acquisition		-	1,822
Loans charged-off		(1,298)	(696)
Charge-off recoveries		355	261
Net charge-offs		(943)	(435)
Balance end of period	\$	20,084	16,045

		June30, 2000	December31, 1999
Total loans:			
At period end	\$	1,500,423	1,400,360
Average (six months for 2000)	\$	1,473,046	1,237,892
As a percentage of average loans:			
Net charge-offs (annualized basis for 2000)		0.13%	0.15%
Provision for loan losses (annualized basis for 2000)		0.45%	0.41%
Allowance as a percentage of period end loans		1.34%	1.27%
Allowance as a percentage of non-performing loans		463%	974%

Management believes that the ALL at June 30, 2000, is sufficient to absorb losses inherent in the loan portfolio. This assessment is based upon the best available information and does involve a degree of uncertainty and matters of judgement. Accordingly, the adequacy of the loan loss reserve cannot be determined with precision and could be susceptible to significant change in future periods.

Deposits and Borrowed Funds

Total average non-interest bearing deposits for the six months ended June 30, 2000 were \$195 million, an increase of \$31 million, or 19%, from the same period in 1999. For the six months ended June 30, 2000, total average interest bearing deposits were \$1.5 billion, an increase of \$323 million, or 28%, from the comparable 1999 period.

At June 30, 2000, United had \$59 million of brokered certificates of deposit issued compared with \$70 million at year-end 1999. Average certificates of deposit for the six months ended June 30, 2000 increased by \$286 million, or 37%, over the same period in 1999; brokered deposits represented \$63 million, or 22%, of the total increase.

Total average borrowed funds for the six months ended June 30, 2000 were \$383 million, an increase of \$55 million, or 17%, from the comparable 1999 period. Most of this increase is attributed to increased net borrowings from the FHLB and was utilized to fund growth of the loan portfolio. At June 30, 2000, United had aggregate FHLB borrowings of approximately \$326 million.

Asset/Liability Management

United's financial performance is largely dependent upon its ability to manage market interest rate risk, which can be further defined as the exposure of United's net interest income to fluctuations in interest rates. Since

net interest income is the largest component of United's earnings, management of interest rate risk is a top priority. United's risk management program includes a coordinated approach to managing interest rate risk and is governed by policies established by the Asset/Liability Management Committee ("ALCO"), which is comprised of members of United's senior management team. The ALCO meets regularly to evaluate the impact of market interest rates on the assets, liabilities, net interest margin, capital and liquidity of United and to determine the appropriate strategic plans to address the impact of these factors.

United's balance sheet structure is primarily short-term with most assets and liabilities either repricing or maturing in five years or less. Management monitors the sensitivity of net interest income to changes in market interest rates by utilizing a dynamic simulation model. This model measures net interest income sensitivity and volatility to interest rate changes based on assumptions which management believes are reasonable. Factors considered in the simulation model include actual maturities, estimated cash flows, repricing characteristics, deposit growth and the relative sensitivity of assets and liabilities to changes in market interest rates. The simulation model considers other factors that can impact net interest income, including the mix of earning assets and liabilities, yield curve relationships, customer preferences and general market conditions. Utilizing the simulation model, management can project the impact of changes in interest rates on net interest income.

At June 30, 2000, United's simulation model indicated that net interest income would increase by .45% if interest rates increased by 200 basis points and would decrease by 4.23% if interest rates fell by the same amount. Both of the simulation results are within the limits of United's policy, which permits an expected net interest income impact within a range of plus 10% and minus 10% for any 200 basis point increase or decrease in rates.

In order to assist in achieving a desired level of interest rate sensitivity, United has entered into off-balance sheet contracts that are considered derivative financial instruments. Derivative financial instruments can be a cost and capital effective means of modifying the repricing characteristics of on-balance sheet assets and liabilities. United requires that all contract counterparties have an investment grade or better credit rating. These contracts include interest rate swap contracts in which United pays a variable rate based on Prime Rate and receives a fixed rate on a notional amount and interest rate cap contracts for which United pays an up-front premium in exchange for a variable cash flow if interest rates exceed the cap rate. United did not enter into any new derivative financial instrument contracts during the first six months of 2000.

The following table presents United's cap contracts at June 30, 2000. At that date, the cap contracts had an aggregate book value of \$274 thousand.

Table 7 - Cap Contracts as of June 30, 2000

(in thousands)

Maturity	Notional Amount	Contract Index	Contract Rate	Fair Value
August 31, 2001	5,000	Prime	10.00%	6
August 27, 2001	20,000	Prime	10.00%	23
September 18, 2003	10,000	3 Month LIBOR	5.50%	472
January 4, 2004	10,000	Prime	7.75%	522
Total	<u>45,000</u>			<u>1,023</u>

The following table presents United's swap contracts as of June 30, 2000.

Table 8 - Swap Contracts as of June 30, 2000

(in thousands)

Maturity	Notional Amount	Rate Received	Rate Paid	Fair Value
April 2, 2001	15,000	8.41%	9.50%	(167)
April 5, 2001	10,000	9.50%	9.50%	(35)
May 8, 2001	10,000	8.26%	9.50%	(135)
June 7, 2001	10,000	8.69%	9.50%	(114)
July 27, 2001	10,000	8.85%	9.50%	(106)
October 12, 2001	10,000	9.11%	9.50%	(108)
June 7, 2002	10,000	9.05%	9.50%	(155)
June 14, 2002	10,000	9.12%	9.50%	(144)
June 24, 2002	20,000	8.80%	9.50%	(375)
July 29, 2002	25,000	9.04%	9.50%	(415)
August 10, 2002	10,000	9.60%	9.50%	(78)
December 23, 2002	10,000	9.19%	9.50%	(193)
Total/weighted average	<u>150,000</u>	<u>8.95%</u>	<u>9.50%</u>	<u>(2,025)</u>

Effective January 1, 1999, United adopted Statement of Financial Accounting Standards No. 133 ("Accounting for Derivative Instruments and Hedging Activities"), that requires that all derivative financial instruments be included and recorded at fair value on the balance sheet. Currently, all of United's derivative financial instruments are classified as highly effective fair value hedges. Fair value hedges recognize currently in earnings both the impact of the change in the fair value of the derivative financial instrument and the offsetting impact of the change in fair value of the hedged asset or liability. At June 30, 2000, United's derivative financial instruments had an aggregate negative fair market value of \$1.0 million.

United requires all derivative financial instruments be used only for asset/liability management or hedging specific transactions or positions, and not for trading or speculative purposes. Management believes that the risk associated with using derivative financial instruments to mitigate interest rate sensitivity is minimal and should not have any material unintended impact on United's financial condition or results of operations.

Capital Resources and Liquidity

The following table shows United's capital ratios, as calculated under regulatory guidelines, compared to the regulatory minimum capital ratio and the regulatory minimum capital ratio needed to qualify as a "well-capitalized" institution at June 30, 2000 and December 31, 1999:

Table 9 - Capital Ratios

	June 30, 2000	December 31, 1999
Leverage ratio	6.36%	5.52%
Regulatory minimum	3.00%	3.00%
Well-capitalized minimum	5.00%	5.00%
Tier I risk-based capital	9.24%	8.44%
Regulatory minimum	4.00%	4.00%
Well-capitalized minimum	6.00%	6.00%
Total risk-based capital	10.73%	9.95%
Regulatory minimum	8.00%	8.00%
Well-capitalized minimum	10.00%	10.00%

On May 8, 2000, United commenced a public offering of between 350,000 and 450,000 shares at a price of \$38.00 per share. As of June 30, 2000, 361,266 shares had been issued, with \$13.7 million. Additional capital included in the unaudited balance sheet and reflected in the capital ratios in table 9 above. The stock offering was closed on August 4, 2000 with a total of \$15.7 million of new capital raised, net of offering expenses. The proceeds from the offering were used to inject additional capital into United affiliate banks, to reduce parent company debt and for other corporate purposes.

During July, 2000 United issued \$10.3 million of 11.295% junior subordinated deferrable interest debentures due July 19, 2030 ("the debenture") to United Community Capital Trust II ("United Trust II"), a Delaware business trust in which United owns all the common equity. The debentures are the sole asset of United Trust II. The United Trust II issued \$10.0 million of Trust Preferred Securities to institutional investors. Although the subordinated debentures will be treated as debt of United, they currently qualify for Tier I capital treatment, subject to certain limitations. The Trust Preferred Securities are callable by United on or after July 19, 2010, or earlier in the event certain contingencies arise. The Trust Preferred Securities must be redeemed upon maturity of the debentures in July, 2030.

United is currently paying dividends on a quarterly basis and expects to continue making such distributions in the future if results from operations and capital levels are sufficient. The following table presents the cash dividends declared in the first quarter of 2000 and 1999 and the respective payout ratios as a percentage of net income.

Table 10 - Dividend Payout Information

	2000			1999	
	Dividend	Payout %		Dividend	Payout %
First quarter	\$ 0.075	15.6%	\$	0.05	12.2%
Second quarter	\$ 0.075	14.4%	\$	0.05	11.4%

Liquidity measures the ability to meet current and future cash flow needs as they become due. Maintaining an adequate level of liquid funds, at the most economical cost, is an important component of United's asset and liability management program. United has several sources of available funding to provide the required level of liquidity. United, like most banking organizations, relies primarily upon cash inflows from financing activities (deposit gathering, short-term borrowing and issuance of long-term debt) in order to fund its investing activities (loan origination and securities purchases). The financing activity cash inflows such as loan payments and securities sales and prepayments are also a significant component of liquidity.

Item III. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in United's quantitative and qualitative disclosures about market risk as of June 30, 2000 from that presented in United's Annual Report on Form 10-K for the year ended December 31, 1999.

Part II. Other Information

Item 1. Legal Proceedings – None

Item 2. Changes in Securities – None

Item 3. Defaults upon Senior Securities – None

Item 4. Submission of Matters to a Vote of Securities Holders – None

Item 5. Other Information – None

Item 6. Exhibits and Reports on Form 8-K

Exhibit 27 – Financial Data Schedule (for Commission Use Only)

There were no reports filed on Form 8-K during this reporting period.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED COMMUNITY BANKS, INC.

By: /s/ Jimmy C. Tallent
Jimmy C. Tallent, President
(Principal Executive Officer)

Date: August 11, 2000

By: /s/ Christopher J. Bledsoe
Christopher J. Bledsoe
Chief Financial Officer
(Principal Financial Officer)

Date: August 11, 2000

By: /s/ Patrick J. Rusnak
Patrick J. Rusnak
Controller
(Principal Accounting Officer)

Date: August 11, 2000